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Resales at MARYLAND TOBACCO AUCTIONS

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CONTENTS

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RESALES AT MARYLAND TOBACCO AUCTIONS

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SUMMARY

This study is concerned with resales of tobacco at Maryland looseleaf auctions after the first sales by growers, and especially with the effects of resales on the growers.

Profits from the resale of Maryland tobacco are made possible by a combination of conditions. Probably the most basic of these conditions is the large amount of poorly prepared tobacco coming to market in Maryland. The second condition is market imperfections--both market fluctuations and auction conditions, such as the speed of sale and variations in light, that sometimes lead to errors in judgment of quality of tobacco. Other conditions favorable to resales on the Maryland market, especially as compared to the burley and flue-cured markets, are: Maryland has been under price supports only four times since the end of World War II; many speculators come from the burley and flue-cured areas to Maryland because, during the period between early March and mid-July, it is the only auction market open; and there is ample warehouse space, so that tobacco generally can be resold at any time.

Warehousemen handle a larger volume of resale tobacco than do speculators, but speculator margins are wider. In 1954, an exceptionally good year for resales, speculators averaged $13.68 a hundred pounds above their paying prices, while warehousemen averaged $8.06. Handling costs and weight losses come out of these margins.

The farmer's best opportunity to cut down the resale margin is to sort and pack his tobacco more carefully. A large part of resales would probably be eliminated if less mixed tobacco came to market. Mixed tobacco can be reworked by the speculator into more attractive baskets that will bring a higher price. Proper preparation on the farm would reduce the amount of reworked tobacco, and the farmer would get the benefit of higher prices. Farmers who are unable to handle their tobacco properly, because of lack of time and labor or lack of knowledge, should explore the possibilities of cooperative or custom stripping and sorting.

More information about the market also could be profitable for the farmer, provided he used it properly in timing his sales and in accepting or rejecting bids. Monday prices are usually the highest for the week in Maryland, and early season prices are generally higher than late season prices. A knowledge of tobacco quality, grade prices, and market trends is necessary if a farmer is to get the maximum income from his crop.

INTRODUCTION

Tobacco has been grown in southern Maryland continuously since colonial days. In early days, it was grown on both sides of Chesapeake Bay. At present, production is confined principally to the five counties in southern Maryland.

The Maryland tobacco grower can sell his tobacco through (1) transfer buyers (2) a hogshead market, or (3) looseleaf auction markets. Buyers who buy at the farm or at their places of business are called "transfer buyers" because they transfer or sell the tobacco either at a hogshead market or a looseleaf auction. A grower also can take his tobacco directly to either market.

The hogshead market is much the older type of market, dating back to colonial days. The Baltimore hogshead market is now the only one of its kind in the United States. In the period when the hogshead market was the only market for Maryland tobacco, several commission firms operated there. Since 1947, only two firms have been active.

A looseleaf auction market was first established in 1939 for the sale of the 1938 crop. About one-fourth of that crop was sold through that market. The next year, half of the sales were made in the looseleaf warehouses. Looseleaf auction warehouses have sold more than 80 percent of the Maryland crop since 1940. In recent years more than 90 percent has been sold in this way. 1/

Looseleaf auctions begin early in May and run through July or into August. The marketing season is one of the longest of the auction seasons for tobacco. It is especially long in relation to the volume of tobacco sold. None of the warehouses operates at full capacity throughout the marketing season, and most days' sales do not take the full time allotted.

There has been an increase from two warehouses operated by two firms in 1939 to 9 warehouses with 13 sales floors operated by 7 firms in 1956. Four of these warehouses (each with two sales floors) are in or near Upper Marlboro, three at Hughesville, and one each at Waldorf and La Plata (Fig. 1).

FOUR TYPES OF BUYERS

Tobacco manufacturing companies, either domestic or foreign, are the ultimate buyers of leaf tobacco, but only one of them has its own salaried buyers in Maryland. Maryland tobacco is bought by (1) packer buyers, buying primarily on order for tobacco manufacturing companies or for export, (2) warehousemen, (3) speculators, and (4) transfer buyers.

1/ Beal, George Max, and Summers, Paul F., Jr., Marketing Maryland Tobacco. Maryland Agri. Expt. Sta. Bull. 451, November 1954, p. 5.

MARYLAND TOBACCO AUCTION MARKETS
1954-55

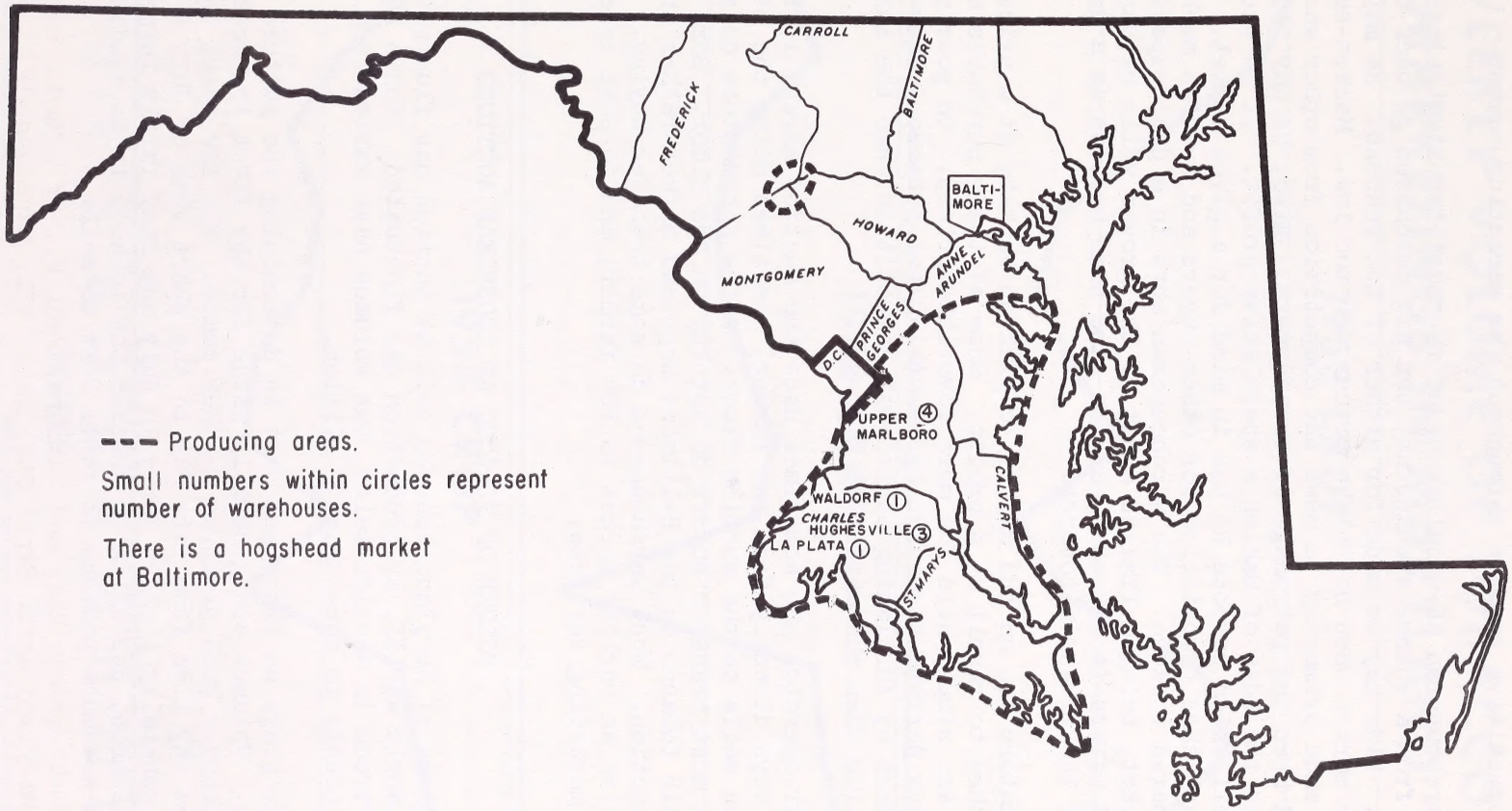

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Figure 1

Final sales are made to the manufacturer or exporter or to the packer buyers who represent them on the market. These buyers furnish the most substantial competitive support throughout the marketing season.

The warehouseman is usually one of the most important single buyers on the market from a volume standpoint, but his purchases go back on the floor for resale. Bids may be made for either of two reasons. He may bid to help support the market when he thinks prices are too low. Market-supporting purchases are made primarily to meet the competition from other warehouses--to attract and keep the patronage of the farmers. Also, he may bid on some baskets with the idea of making a speculative profit. It is usually impossible to tell which purpose he has in mind for a given basket. In either case, he furnishes competition for other buyers and reworks much of the poorly prepared tobacco. The warehouseman acts in a dual capacity in the tobacco market, being a limited agent of the grower while he handles the tobacco and offers it for sale, at the same time he acts as a dealer by buying some of the grower's tobacco.

Speculators are on the market to pick up baskets at a price low enough to enable them to resell at a profit. Some of their purchases are reworked, while some are simply held for more favorable prices. On poorly prepared baskets, they perform a service by reworking the tobacco. They also stabilize the market by furnishing additional competition when the market is weak and by selling when the market is stronger.

Another operator who sometimes uses the auction market is the transfer buyer. He buys directly from the farmer, sometimes doing the stripping and sorting, and sells on the auction floor. A few speculators do some transfer buying, but most transfer buyers do not buy on the floor. Some of them sell much of their tobacco on the Baltimore hogshead market rather than at the looseleaf auction. Most warehousemen do some transfer buying. Transfer buyers furnish an earlier market to the farmer, and in some cases perform additional marketing services.

VOLUME OF TOBACCO AT LOOSELEAF AUCTIONS

The volume of Maryland tobacco sold at auction has fluctuated considerably since World War II, as production has fluctuated. There has been no noticeable trend in auction sales, but volumes have varied from less than 28 million pounds to more than 40 million.

Weather plays an important part in determining the pattern of marketings each season. Volumes are generally large for the first few weeks, and then decrease whenever good planting weather comes. The low point in volume generally comes any time from late May to the short week of July 4 (fig. 2). Marketings generally pick up early in July and stay fairly large until the end of the season, depending on whether the tobacco is in condition for working and how much tobacco is still left to sell.

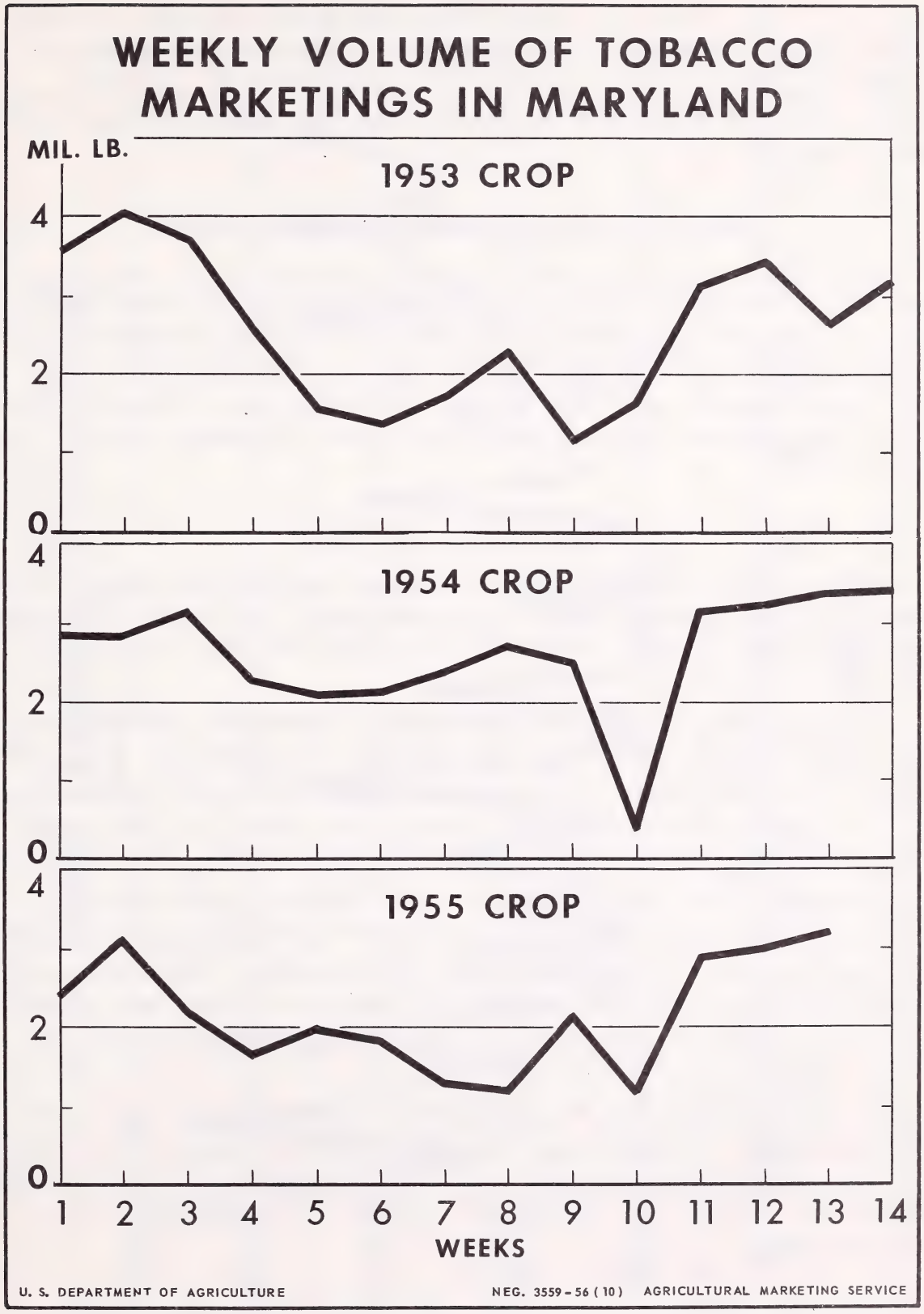
WEEKLY VOLUME OF TOBACCO MARKETINGS IN MARYLAND
MIL. LB.
1953 CROP
1954 CROP
1955 CROP
4
2
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14
WEEKS
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Figure 2

Monday sales in Maryland are nearly always by far the largest of the week. Only twice in the last three seasons has Monday failed to show the largest volume of any day in that week. The volume drops off sharply on Tuesday and usually declines a little more on Wednesday and Thursday. Fridays average about the same volume as Thursdays. Daily volumes fluctuate widely however, and the low volume of the week may occur on any day but Monday (fig. 3).

DEMAND AND PRICE PATTERNS FOR MARYLAND TOBACCO

Maryland tobacco prices have increased tremendously over the past 50 years, but there has been no noticeable trend since early in World War II (table 1). In general, prices for the past 10 years have responded to the supply of Maryland tobacco, going up in years of small crops and down in years of large crops. The only apparent exception to this is 1953, when price supports served the double purpose of holding the price up on a relatively large crop and reducing the quantity bought by packers by about 7 million pounds.

Production Outruns Demand

The varieties of tobacco grown in Maryland are among the oldest in this country. Of the different types, it is most nearly like burley. It is lower in nicotine than the other types, thin, dry, and light when cured, with very good burning qualities.

The principal use is in the manufacture of cigarettes. Because of the thin, light and dry character of this tobacco, more cigarettes can be made from a pound of Maryland than any other tobacco. Domestically, Maryland tobacco is used as a part of the blend in a number of popular brands of cigarettes. It constitutes only a small part of the tobacco in these brands, however, and a few popular brands have no Maryland tobacco. An estimated 85 percent of all Maryland tobacco goes into cigarette use, but this makes up only 2 percent of the total cigarette tobacco used in the United States. Maryland tobacco has not shared in the increased demand for cigarette tobacco to the extent that flue-cured and burley have. Before World War II it made up a larger portion of the tobacco going into cigarettes than it does today. The ability of most cigarette companies to reduce the already small proportion of Maryland tobacco in their blends is a definite demand factor. 2/ The lower priced domestic grades go into blends for some short-filler cigars.

The export market took the largest part of the production up to the depression years of the 1930's. Today Switzerland is the chief foreign market for this tobacco. Out of a total of nearly 8 million pounds exported for the 1953 crop year, Switzerland took over 5 million. Maryland tobacco constitutes 60-80 percent of the tobacco used in some of the popular brands of

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2/ Op. cit. pp. 30-35, pp. 38-42.

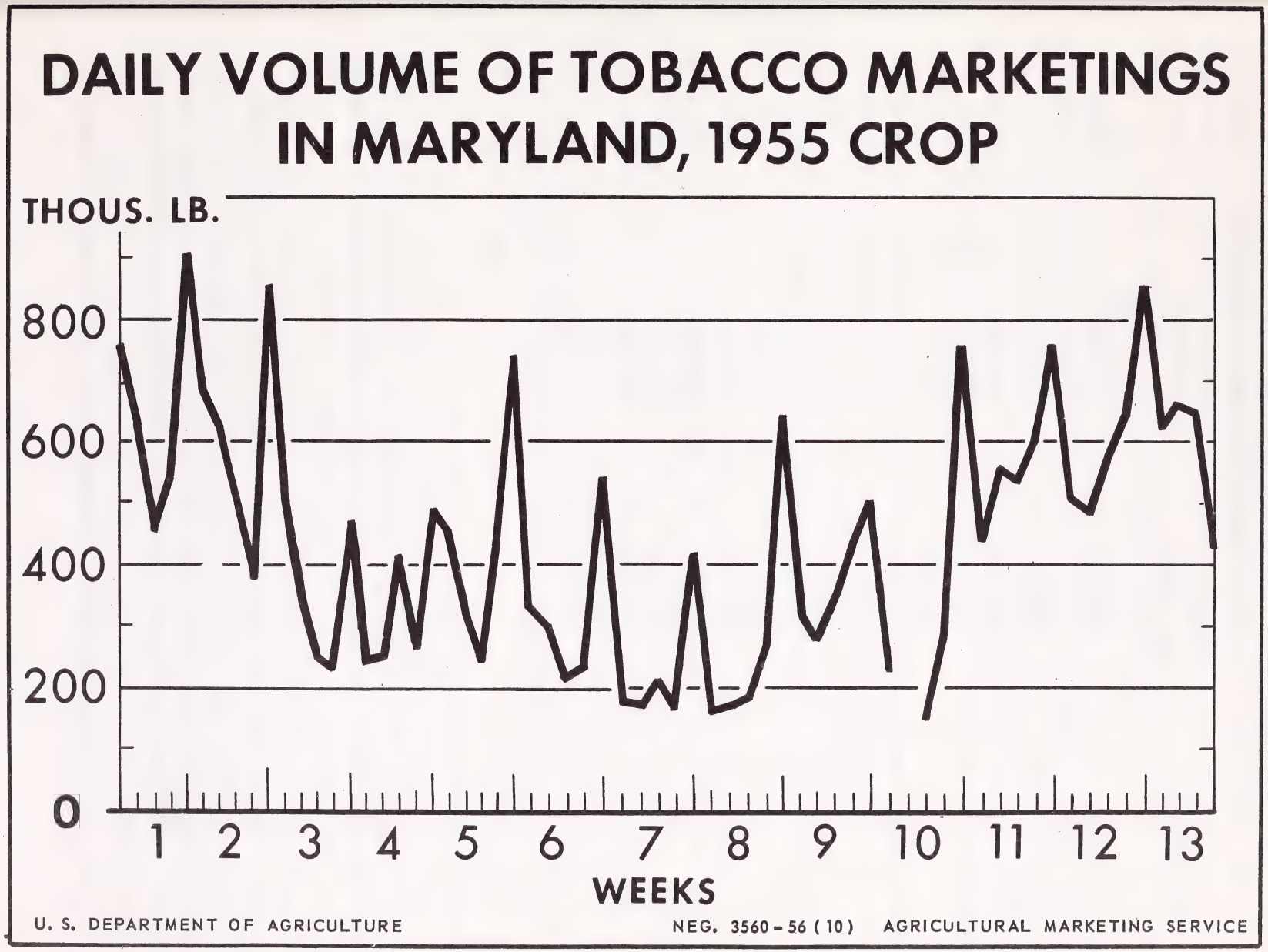
DAILY VOLUME OF TOBACCO MARKETINGS
IN MARYLAND, 1955 CROP
THOUS. LB.
800
600
400
200
0
1
2
3
4
5
6
7
8
9
10
11
12
13
WEEKS
U. S. DEPARTMENT OF AGRICULTURE
NEG. 3560-56 (10)
AGRICULTURAL MARKETING SERVICE

Figure 3

Table 1.--Acreage, production, and price of Maryland tobacco, by crop years, average 1910-1939, annual 1940-1955

Crop year 1/	Acreage harvested	Production	Price
	Acres	1,000 pounds	Cents
1910-1914	25,400	18,469	8.1
1915-1919	27,600	21,262	21.0
1920-1924	28,400	22,320	21.7
1925-1929	31,400	24,423	24.3
1930-1934	36,780	24,958	18.3
1935-1939	37,400	28,845	20.4
1940	38,400	32,640	33.0
1941	40,300	31,232	30.1
1942	38,000	28,120	56.5
1943	35,300	20,827	45.3
1944	45,000	38,250	55.5
1945	35,000	18,375	57.0
1946	50,000	46,250	44.5
1947	47,500	37,762	42.8
1948	46,600	34,950	54.4
1949	50,000	41,250	48.3
1950	50,000	40,000	48.2
1951	53,000	41,605	44.8
1952	50,000	40,250	48.8
1953	45,000	40,500	54.5
1954	50,000	45,000	40.3
1955	49,000	2/35,525	50.2

1/ Year harvested.
2/ Preliminary
Source: Crop Reporting Board, AMS.

cigarettes in that country 3/, and about one-third the tobacco used in cigarettes. This trade is especially important to the growers as the Swiss purchase the top grades at a price high enough to take them out of domestic trade.

Maryland's production since 1949 has averaged about 40 million pounds, but total disappearance has averaged only a little over 36 million pounds. Domestic use has averaged under 29 million pounds and exports have averaged less than 8 million. This discrepancy between production and use has built up stocks from 60 million pounds on October 1, 1950, to 84 million pounds on October 1, 1955, the highest on record. Eleven million pounds of this were

3/ Owen, R. A., The Swiss Tobacco Market. U. S. Dept. Agri. Foreign Agri. Cir. F. T. 20-55, p. 1.

in Government loan stocks. The small 1955 crop has resulted in a reduction in the October 1956 stocks, especially since exports were much larger than normal during the 1955-1956 marketing year.

Grade Prices and the Market Average

The average of all market prices often obscures the actual price picture as measured by the prices for the different grades of tobacco. This happens because changes in the average quality of tobacco offered affect the average price paid for all tobacco, even though prices by grades may be unchanged, or may move in the opposite direction. Changing market price averages may not reflect, or only partly reflect, changes in grade prices because the grade composition may also have changed.

A detailed study of both daily grade prices and the daily market average price for the crops of 1953, 1954, and 1955 forms the basis for the price conclusions reported here. These 3 years represent a cross section of recent market conditions: Price supports were in effect for the 1953 crop; the 1954 crop was of poor cigarette quality and was large, and prices were low; the 1955 crop was small, but prices were high.

The normal seasonal price pattern for Maryland tobacco during the last 3 years has shown highest prices during the early part of the season and a pronounced decline at the season's end. 4/ Some years have a rather steady drop in prices over the whole marketing season, while others show times of definite price recovery before continuing the decline. The market average almost always declines more than do grade prices (fig. 4), indicating a lowering of average quality as the season progresses. One of the main reasons for the sharp drop during the last 2 weeks of the 1955 crop season was that the actual amount marketed exceeded the amount estimated by the trade as available for marketing.

Tobacco manufacturers adjust their requirements to the supply coming to market by "percentage buying" 5/. Simply stated, they estimate the proportion of the crop each intends to buy. Their demand is related to the seasonal supply and not to the daily and weekly fluctuations in the supply coming to market. This tends to stabilize prices and lessen the daily and weekly price fluctuations, particularly by quality or grade. The estimate of the crop to be sold at the looseleaf auctions in 1956 appears to have been too low. Some

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4/ A pattern common to tobacco looseleaf auction markets. Dana, G. Card, and Clark, Carl M. Seasonal Movements in Prices and Sales of Burley Tobacco. Kentucky Agri. Expt. Sta. Bull. 409, p. 473, and Clark, Carl M., Binkley, Wendell C., and Pettus, David M. Seasonal Price Movements of Fire-cured tobacco in Kentucky. Kentucky Agri. Expt. Sta. Bull. 460, p. 26.

5/ Nichols, W. H., Price Policies in the Cigarette Industry, pp. 268-281. Jackson, Elmo, The Price of Cigarette Tobaccos, pp. 133-161.

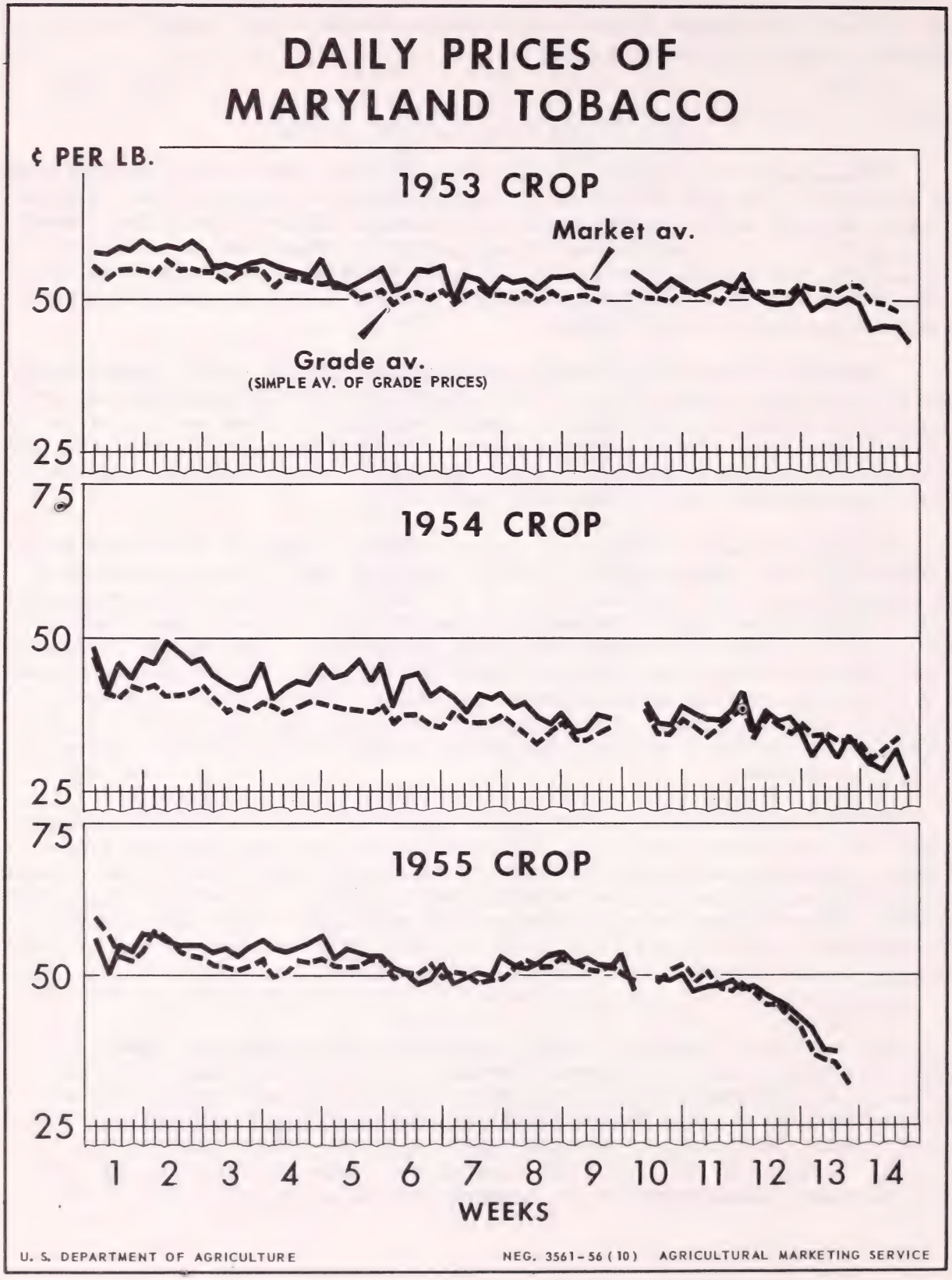
DAILY PRICES OF
MARYLAND TOBACCO
¢ PER LB.
1953 CROP
Market av.
50
Grade av.
(SIMPLE AV. OF GRADE PRICES)
25
75
1954 CROP
50
25
75
1955 CROP
50
25
1 2 3 4 5 6 7 8 9 10 11 12 13 14
WEEKS
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Figure 4

buyers did not adjust their buying to the increased volume, and they secured their requirements before the season ended. They were either out of the market completely or bought on a restricted basis during the last 2 weeks. This reduction of competition resulted in sharply lower prices for that period.

Both grade prices and the market average price often fluctuate considerably from day to day, but not always in the same direction. In fact, grade prices and average prices moved in opposite directions 40 percent of the sales days during the last 3 years. They moved by approximately the same amount in the same direction only about 25 percent of the time, indicating no appreciable change in average quality. They moved in the same direction the other 35 percent of the time but by different amounts, as both quality and grade prices changed.

Weekly price patterns also show some discrepancy between grade prices and the market average. Market average prices have a definite Monday peak. Tuesday's averages are sharply lower. The rest of the week shows little change, and day-to-day fluctuations tend to obscure the somewhat indefinite pattern in daily average prices, except for the Monday highs. The grade price pattern is even less well defined. Unlike market average prices, grade prices tend to reach their peaks on Monday and Friday, with a slight sag in the middle of the week. Average prices, depending on both grade prices and quality, also fluctuate over a wider range than do the grade prices (fig. 4).

The day-to-day fluctuations in grade prices cannot be explained entirely in the usual terms of supply and demand, largely because of percentage buying in which each buyer's quota is a proportion of the crop rather than an absolute quantity. Market imperfections undoubtedly play some part--especially such factors as light conditions and speed of sale, which lead to errors in judgment of quality. Differences in samples from poorly prepared tobacco could also have some effect, although this is more likely to show up in differences between baskets of the same grade than for an entire day's sale. Another factor is that, because buyers have their own standards and grades, the Federal grades under which prices are reported often do not measure the same quality factors for which the buyers are looking. A buyer may be buying the top quality of a given Federal grade at a fairly high price while he or another buyer fits the lower quality of that Federal grade into a lower priced buyer grade. Therefore, as more or less of the top quality within a grade comes to market, the average reported price for that grade will rise and fall even though prices paid by the packers for comparable qualities are unchanged.

Price Differentials Between Grades

Price relationships among the various grades of Maryland tobacco change as demand characteristics of the cigarette companies change. Generally, the lower priced grades have gained relatively more during the past few years than have the higher priced grades. Prices for the 1955 crop, during the

1956 marketing season, indicate that some of what have been considered the cigar grades were bought for cigarette use. The cigar grades are the only ones that have exceeded their postwar price high, reached in 1950 (fig. 5). These adjustments have been going on for several years, and may not yet be complete. It will be some time before the extent of the changes will be apparent, in any event, since differences in each crop will affect grade prices. For example, seconds from the 1955 crop sold as much as 20 cents a pound below their usual price range because of dirt and sand on these leaves as well as other damage caused by a hurricane just before harvest, while most heavy crop grades that usually sell in the same price ranges sold at near-record highs. This gives a misleading picture of price relationships for the 1955 crop, as these conditions were not reflected by Federal grades. Of the 1954 crop, many grades sold at low prices because Federal grades evidently did not reflect the qualities desired by cigarette manufacturers for that particular crop. It will take several years before it can be determined whether there is a new normal pattern or whether changes are due to characteristics of a particular crop or market.

RESALES

Resales of Maryland tobacco play an important part in the loose-leaf auction system. Resale tobacco is that tobacco bought on the floor by warehousemen and speculators and later resold to packer buyers.

The proportion of resales in recent years is more than double what it was during the first few years of the looseleaf auction system in Maryland (table 2). An average of 7 percent of the farmer sales on the auction floor were bought for resale during the period 1939-1944. Immediately after World War II, resales increased to about 11 percent, including the unusually high proportion of resales for the 1945 crop. During the past 4 marketing seasons, for the crops of 1952-1955, resales have averaged more than 15 percent. These percentages are much higher than for flue-cured and burley tobaccos, and the trend in Maryland is upward. The proportion of resales on flue-cured markets has held about steady recently, while resales have declined in the burley area.

REASONS FOR RESALES

A number of reasons for the large--and increasing--volume of resales of Maryland tobacco have been advanced, and there is probably some validity to each. The relative importance of these various reasons is difficult to determine, however, and there may well be additional reasons not discussed in this report.

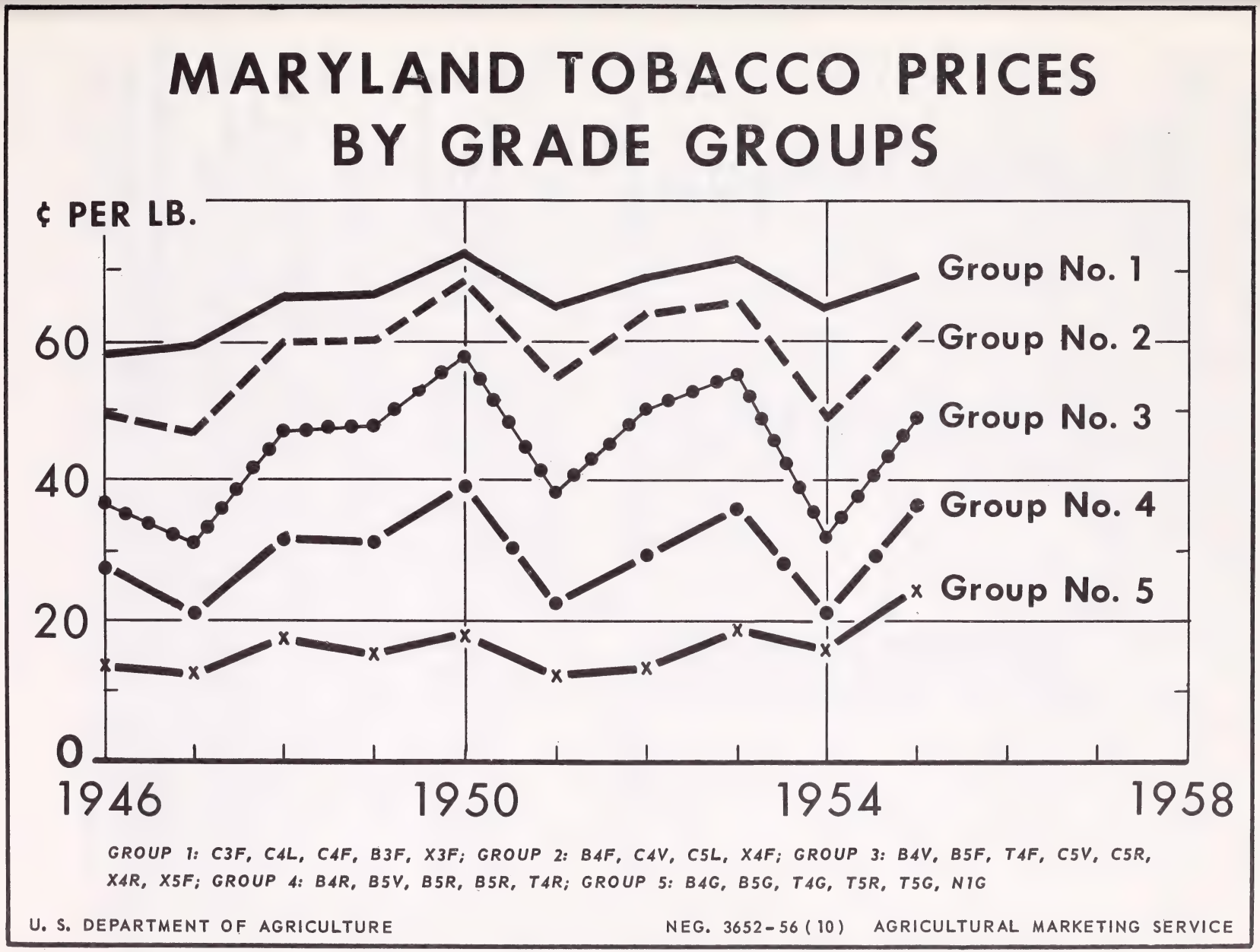
MARYLAND TOBACCO PRICES
BY GRADE GROUPS
¢ PER LB.
60
40
20
0
1946
1950
1954
1958
Group No. 1
Group No. 2
Group No. 3
Group No. 4
Group No. 5
GROUP 1: C3F, C4L, C4F, B3F, X3F; GROUP 2: B4F, C4V, C5L, X4F; GROUP 3: B4V, B5F, T4F, C5V, C5R, X4R, X5F; GROUP 4: B4R, B5V, B5R, B5R, T4R; GROUP 5: B4G, B5G, T4G, T5R, T5G, N1G
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Figure 5

Table 2.--Net sales and resales at Maryland looseleaf tobacco auctions, by crop years, 1939-1955

Crop year	Net sales	Resales	Percentage of net sales bought for resale
	1,000 pounds	1,000 pounds	Percent
1939	16,601	1,179	7.1
1940	23,351	1,448	6.2
1941	27,236	2,206	8.1
1942	22,591	1,423	6.3
1943	17,147	1,732	10.1
1944	33,878	1,118	3.3
1945	15,123	2,586	17.1
1946	40,595	3,978	9.8
1947	33,592	3,695	11.0
1948	30,201	2,446	8.1
1949	35,753	3,867	10.8
1950	34,683	3,323	9.6
1951	38,280	4,428	11.6
1952	34,836	5,228	15.0
1953	36,034	5,112	14.2
1954	37,194	5,813	15.6
1955	27,689	4,748	17.1

Source: Tobacco Division, AMS

Poor Preparation

One of the basic factors encouraging resales is the large amount of poorly prepared tobacco offered on the auction floors. When a packer considers buying this tobacco, he is aware of the expense of re-sorting it, so he often does not even bid on it. He may bid if it is not too badly mixed, so that it will still fit into one of his lower grades. The speculator or warehouseman gets a chance to buy quite a bit of this tobacco fairly cheap and rework it, making it more uniform and more attractive in appearance.

The amount and kind of reworking vary greatly. In some cases, the tobacco is merely repacked to blend it for better appearance. Often the off-color and poorer leaves are removed during the repacking operations. Sometimes the tobacco is re-sorted into several grades. One of the big tasks in reworking the hurricane-damaged 1955 crop was removing sand and dirt.

No data are available on the quantity of poorly prepared tobacco offered, but estimates within the trade run as high as one-third of the crop. One experienced observer has estimated that better sorting and packing would eliminate 90 percent of the resales.

Definite measurements of the amount of poorly prepared tobacco in the different regions are lacking, but people in the trade generally feel that a higher proportion of Maryland tobacco is mixed than in other regions. This could account for a great deal of the difference in volume of resales.

Market Imperfections

Market fluctuations also encourage resales. Changes in the general market situation resulting from demand, supply, or price conditions offer an opportunity for gain by buying and reselling. The warehouse operator and speculator are on the market continuously and can judge quite accurately when prices are weak, offering an opportunity to buy and resell later at a profit. They also run the risk of loss from a further price decline. These fluctuations may be due at least partly to changes in requirements or buying practices of the packer buyers. If their needs increase, they bid more agressively, and prices tend to rise. If their needs decrease, they are less aggressive, and prices soften. Under the "percentage buying" system, buyers on the floor are instructed to buy a certain quantity of tobacco. As the estimates of the total crop change during the season, or as the quantities of certain grades change, these percentages are changed to equal the same quantity of tobacco. Competition also changes as existing orders are filled or new orders received. Then, too, tobacco packers have certain overhead costs, and they want to operate at sufficient volume to minimize these costs. If the volume coming to market is low relative to their plant capacity, they may tend to pay a little higher price to secure the necessary volume. On the other hand, bidding may be less active with large volumes on the market.

Conditions at the auctions themselves sometimes lead to errors in judgment as to the quality of some baskets of tobacco. There are few objective measures of quality for tobacco, and each basket is valued by the judgment of each buyer, with his own standard of comparison. The speed of the sale allows little time for examination of each basket or for many bids. With a basket being sold every 10 or 12 seconds, buyers often make only one bid and move on to the next basket.

Color is an important factor in judging the quality of tobacco, and light affects the recognition of color. Light varies from day to day and during the same day. The place of the tobacco on the floor also affects the light, particularly the position in relation to the skylights (fig. 6).

It is noticeable that speculators become interested when low bids are made. Either the warehouseman or speculator, observing low bids on a basket that is not badly mixed, sometimes attributes the bids primarily to the effect of light and assumes the tobacco is priced under the market. He makes an offer. The other buyers, having moved on to the next basket, usually do not have time to reconsider their bids and the auctioneer sells the tobacco to the warehouseman or speculator. The buyer then seeks to reoffer the basket under more favorable conditions, hoping for a better price.

N18572

Figure 6.--The newest and one of the best lighted warehouses in Maryland. Notice the difference in light from one pile of tobacco to the next.

The effects of changing conditions on price can best be shown by examples of resales and rejections (table 3). Of 121 baskets on which both the rejected bid and the final sale price were available during the 1955 auction season, only 9 baskets received the same bid the next time offered. Twenty more showed changes of 1 cent a pound or less. On the other baskets, price changes ranged from an increase of 47 cents a pound to a decrease of 26 cents.

Table 3.--Gains and losses of a sample of rejects and resales at Maryland tobacco auctions, 1954 crop

Item	Rejects	Resales
	Baskets	Baskets
Total	121	228
With gains	81	127
With losses	31	93
With no change	9	8
	Dollars	Dollars
Total gains	1,616	3,359
Total losses	289	773
Net gain	1,327	2,586
Net gain per hundred	6.68	7.54

The effects of market imperfections and changing market conditions also are shown by price changes on a sample of resales of identical baskets of the 1954 crop. The sample included 228 baskets. Of this number only 8 baskets showed no change in price when resold. A gain of 43 cents was the largest increase in price and a loss of 29 cents was the greatest loss. The average gain on the 127 baskets showing a price increase was 17 cents a pound, and the average loss on 93 baskets with losses was 6 cents. The net gain for all these baskets was 8 cents a pound.

Many of these baskets were sold the next sales day after the rejection or the speculator purchase, and practically all were sold within a week. These changes were due to differences in judgment or differences in the samples, rather than in the tobacco, as only those baskets were included whose weight had not changed beyond the limits of normal weight loss.

These market conditions and price fluctuations encourage resales, but they do not explain why resales are increasing in Maryland and decreasing or holding steady in the burley and flue-cured tobacco areas. The organization and operation of the markets are quite similar, and many of the same buyers operate on the other markets. There is some similarity of price patterns, too, on all auction markets.

Other Differences

Both flue-cured and burley have been under price supports every year since 1940, while Maryland prices have been supported only for the crops of 1948, 1949, 1950, and 1953. The theory is that when price support loans are available, much of the tobacco that would normally go to speculators would instead go under loan.

It is difficult to determine the amount of reduction in resales due to the loan operations. The resales for the 4 years when the support program was in operation averaged the same proportion of net sales as in the years when there was no support. The upward trend in resales appears to have been halted somewhat for the 3 years 1948-1950, when the loan program was in operation. The resales averaged 9.5 percent of sales for those 3 years. This compares with 11 percent for the preceding crop, 1947, and 11.6 and 15 percent for the two succeeding crops not under loan, 1951 and 1952. The resales for the 1953 crop, also under support, were 14.2 percent. For the 2 succeeding crops, 1954 and 1955, resales were 15.6 and 17.1 percent of net sales. The speculator margins on the 1953 crop, under price support, averaged $9.90 a hundred pounds; for the 1954 crop, not supported, $13.68. Warehousemen's margins averaged $7.11 in 1953 and $7.90 in 1954.

However, there are other factors influencing these margins in the 2 years than the presence or lack of price supports. The low price and the poor cigarette quality of the 1954 crop made this crop one of the best for the speculator.

The loan program narrows the margin between the speculator's paying price and the return he can secure. Some of the baskets placed under loan would, if there were no support, sell at prices far enough below the loan rate to encourage a speculator to purchase them. The reduction in resales would be measured by the number of such baskets that would go under loan. On the other hand, the professional speculator is interested in the returns he secures from his operations; and the fact that some of the baskets he might buy would otherwise go under loan may induce him to search more diligently for other baskets on which the loan rate is low enough for him to see a profit in purchasing them at one bid or more above the loan rate. The effect of loan programs on the volume of resales will be shown when the crops of 1956, 1957, and 1958 are marketed, since they will be supported.

No other tobacco markets are operating when the Maryland auctions open in early May. Many speculators come from the burley and flue-cured tobacco areas to Maryland because it is the only looseleaf market open until the Georgia-Florida auctions start in late July. The number of speculators does not necessarily affect the amount of resale tobacco, however. Warehouse records for the 1954 crop show that, of about 80 speculators, the 5 largest bought more than a third of the speculator tobacco.

Another difference from flue-cured and burley markets that is favorable to resales is that there is ample selling time in Maryland. Neither farmers nor speculators have to wait several weeks to sell their tobacco, as

sometimes happens in other areas. Tobacco usually can be offered again on the next sale day after it is taken off the floor. This means that the speculator does not have to keep his money invested for a long time and that he does not have to worry about future market trends.

MARGINS ON RESALES

Resales of Maryland tobacco for the past 4 crop years have averaged more than 1 pound out of every 7 offered by farmers. Resales for each of the 1953 and 1954 crops were valued at over $2\frac{1}{2}$ million dollars.

Warehousemen handle more resale tobacco than do the speculators. In both 1953 and 1954, warehouses bought 8.6 percent of farmer offerings for later resale. Speculators bought 6 percent in 1953 and 7.4 percent in 1954. Packers resell only tobacco that they find does not fit into their particular grades, amounting to less than half a percent of their total purchases.

The amount of margin taken on resale tobacco is not normally available, but a study of warehouse books for the 1954 crop and the price support records for the 1953 crop gives some information for those years. More data are available for the 1954 crop than for any other, but this crop was not typical, so only limited conclusions can be drawn. Manufacturers considered it one of the poorest cigarette crops on record, and prices were the lowest since 1941. Price variations were wider than usual, and most people in the trade considered it one of the best years in Maryland auction history for making money on resales.

Cost data for handling resales are not available. The principal costs involved are for the labor for reworking and the loss of weight in the tobacco. The smaller speculators do most of their own reworking, while some of the larger speculators have one or more men working for them. Each warehouse has from 2 to 5 men working its leaf account, besides the leaf buyer who "backs up"--or supports--the sales. Most warehouses also employ a man whose primary responsibility is supervision of the leaf account. Some warehouses have men working exclusively on their leaf, while others use employees who are not busy at other jobs. This makes accurate cost allocation difficult. Weight losses may be due either to drying out or to discarding damaged leaves, or both. Weight losses vary considerably from year to year, but probably average around 5 percent. Most speculators also have the additional cost of renting a place to rework and store their tobacco.

Speculators usually get a wider gross margin on resales than do the warehouses, because the warehouses make some market-supporting purchases on which they lose money. The difference between average purchase price and average sales price for speculators on the 1953 crop was $9.90 a hundred pounds. This increased to $13.68 for the 1954 crop (table 4). Warehouse margins for their leaf accounts averaged $7.11 a hundred for the 1953 crop and $7.90 for 1954. "Country" tobacco, bought by warehousemen or other transfer buyers at the farm, is not included in any of the data in this study.

Table 4.--Volume and value of purchases and sales at Maryland looseleaf tobacco auctions, 1954 crop

Type of sale	Volume	Price	Value
	1,000 pounds	Dollars per cwt.	1,000 dollars
Total sales.....	43,007	40.02	17,212
Net sales.....	37,194	39.53	14,702
Resales.....	5,813	43.19	2,510
Packers' purchases.....	37,052	41.20	15,266
Packers' resales.....	139	39.46	55
Net packers' purchases..	36,913	41.21	15,211
Warehouse purchases 1/....	3,188	35.59	1,135
Warehouse resales 1/.....	3,171	43.49	1,379
Difference.....	2/ 17	7.90	244
Speculators' purchases....	2,767	29.31	811
Speculators' resales.....	2,503	42.99	1,076
Difference.....	2/ 264	13.68	265

1/ Includes pickups, lost tickets, and tobacco returned from packers.
2/ About 80,000 pounds lost in handling, including normal weight loss from drying out, and 200,000 pounds sold direct to packers or held over until 1956.
Source: The data on purchases and sales for the 1954 crop were made available by the tobacco auction warehouses in the several markets through the cooperation of the Maryland Tobacco Authority.

Gross margins on resales amounted to an estimated $370,000 for the 1953 crop and $509,000 for 1954. These margins are less than the direct warehouse charges for selling tobacco. Warehouse charges are estimated at from $450,000 to $575,000, depending on the size and value of the crop.

There are two direct charges made by the warehousemen for their services. One is a basket charge, 25 cents for a basket of tobacco weighing up to 100 pounds or 35 cents on baskets weighing over 100 pounds. The other is a commission charge on the sale value of tobacco. This commission had been 2½ percent until the 1956 marketing season, when it was raised to 3 percent.

Like warehouse charges, the resale margin might be regarded as a charge for services performed by the warehousemen and speculators and the costs they incur must be paid out of that margin. For baskets that need reworking, the margin pays for the service of better sorting and packing. When baskets are bought at a low price because of errors in judgment or changes in market conditions, warehousemen and speculators stabilize the market, and the margin is

their payment for that service. In either case, the farmer receives a part of the benefit, because the warehouseman or speculator has made at least one bid higher than the packer buyer.

WHAT FARMERS CAN DO TO REDUCE RESALES

Better Preparation Pays

A large proportion of the resale tobacco must be reworked before it is resold. Packer buyers often will not bid on this mixed tobacco, preferring to let the warehouseman or speculator do the sorting. In effect, this results in the farmer paying for resorting by receiving lower prices than the packers are willing to pay for properly sorted, or "straight," tobacco. The tobacco trade is almost unanimous in its belief that better preparation on the farm would reduce resales.

Some mixed tobacco also brings a lower price because some of the buyers happen to get poorer tobacco in the particular samples they pull. Thus, the basket seems to them to be of poorer quality than it actually is, and their bids, based on their samples, are lower than the real value of the tobacco. Of course, the farmer will profit when the sample includes only good tobacco.

Better preparation means more care and time spent in sorting and packing (fig. 7). These are the final steps in a series of operations stretching over a year or more, all leading up to the actual sale. The income realized on the entire crop depends on the prices packers are willing to pay, since they are the final buyers. The better each basket is sorted and packed, the higher is the price.

The effect of sorting on price is shown by the record of a basket of 1954-crop tobacco. A bid of 16 cents a pound was rejected, and the basket was re-sorted into 4 separate lots. The lowest priced basket brought 16 cents, and the average price was raised to 39.43 cents (table 5). The reworked tobacco brought $40.28 more than the rejected bid would have brought. Based on the original weight of the basket, the gain amounted to 22.13 cents a pound. The profit on this one basket would pay for the fertilizer used by the average Maryland grower on two acres of tobacco.

Besides the baskets that are reworked and sold at a profit, there is undoubtedly much tobacco bought by packer buyers that would have brought a better price if properly sorted.

Additional research is needed to determine the stripping, sorting, and packing techniques that will be practical for farmers. It is obviously impractical for a farmer to sort into a large number of grades. On the other hand, simply sorting into three or four grades, according to position on the stalk, is seldom adequate. Additional sorting according to color and texture would help to achieve uniformity, and damaged leaves could be kept separate. Wrapping with the same quality leaf as the rest of the tobacco in the hand also is desirable (fig. 8). The quality of the wrapping leaves is important, since they are on the outside of the basket and contribute greatly to the general appearance. Uniformity, or blending, of the hands within the basket, too, helps the appearance and makes uniform sampling more likely.

N18564

Figure 7.--Here stripping and sorting are done at a table, so the tobacco may be seen better and handled easier.

Table 5.--Price and value of a lot of tobacco when originally offered and when re-sorted

Grade	Weight	Price	Value
	Pounds	Cents per pound	Dollars
B4R.....	182	16 (rejected bid)	29.12
		Sale when re-sorted	
B4F.....	68	69	46.92
B4R.....	68	16	10.88
C4V.....	18	29	5.22
X4D.....	22	29	6.38
Average.....		39.43	
Total.....	176		69.40
Gain.....	- 6		40.28

Source: Tobacco Division, AMS.

Stripping, sorting, and packing present a major problem to many growers, both from the standpoint of time and labor involved and knowledge of what the packers want. Where either of these factors is involved, custom work or co-operative efforts may offer a solution. Here, again, additional research might be helpful.

Know the Market

Farmers could sometimes obtain part of the resale margin for themselves if they had more information about the market. For example, tobacco offered on Monday usually brings a better price than at any other time in the week, and early season prices are generally higher than at the end of the season. It is sometimes profitable to reject bids on certain baskets, and offer them again later.

Not all the information a farmer could use for the most profitable marketing of his tobacco is readily available. The details of supply and demand conditions and price trends could be very helpful, but it is difficult to assemble, evaluate, and distribute this information quickly. A limited number of buyers are on the market every day, and they can more readily get the needed information. Farmers are at a disadvantage because they cannot be on the market every day, but must depend on other sources of information. Market news reports as developed to date usually deal mainly with market average prices, individual grade prices, and total volumes. Many meaningful details and most of the interpretation still must be supplied by the reader. Further research is needed to determine what additional market information would benefit the tobacco farmer and how he could best use it.

N18566

Figure 8.--Hands should be tied neatly, using a leaf of the same quality as the rest of the hand.

Available data indicate that most farmers profit on rejections. Not all of them make money every year, however, and even the successful ones are likely to lose on a few baskets. There is always the risk that what seem like unusually low bids may be the beginning of a price decline that will drop even farther. Knowledge of tobacco quality and market conditions is essential to success in rejecting bids.

Farmers have about 30 minutes after the sale of their tobacco to reject any or all of the bids if they feel the bids are too low. No warehouse charges are made until the tobacco is sold. About a quarter of the bids on the 1954 crop were rejected, an extremely large proportion. Rejects ran high for that crop because of the lowest prices since 1941.

A study of warehouse floor sheets for the 1954 crop shows that more than half the farmers in the sample made money by rejecting bids, but that quite a few lost money. Considering only baskets whose rejected price and final sale price were both available and whose original and final sale weights indicated that the tobacco had not been reworked, a sample of 19 farmers who rejected bids on 121 baskets was selected. The results agree closely with a larger sample taken from the 1951 crop 6/, and the average basket weight is within 2 percent of the season average weight. The average final price of the rejected tobacco was about 5 cents a pound below the season average, indicating that the tobacco was a little below average quality.

Eleven of the 19 farmers made money by rejecting bids, but the other 8 lost. Dollar gains far outweighed losses, however. The 11 farmers who showed a profit made gains on 74 baskets, broke even on 5, and lost on 12 baskets. The net gain on these 91 baskets totaled $1,616. Those who lost money lost on 23 baskets and gained on 7. The net loss for these 8 farmers was $289. The biggest individual gain was $655 on 28 baskets. One basket alone increased $85.93 in value. The biggest loss was $116 on 7 baskets. One farmer lost $51.76 on a single basket. All but 4 of the 13 farmers who rejected bids on more than 2 baskets lost money on 1 or more baskets even when they had an average net gain. The average net gain per pound on all baskets rejected, based on the original weight, was 6.7 cents, or an increase in value of $10.97 per basket. The average weight loss was only 1.38 percent. A few baskets lost money for the farmer, even though the price was unchanged, because of weight loss. The sample clearly shows that there is some risk involved in rejecting bids but the gains usually more than offset the losses.

6/ Op. cit., pp. 18-20.

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